



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: March 30, 2021

Re: Internal Audit Reports

Since the last report to the Audit Committee on January 26, 2021, two audits were completed and copies of the reports are attached. A summary of each audit is as follows:

2020 Employee Expenses

Objective:

The objectives of the Employee Expenses audit were:

- To evaluate the effectiveness of internal controls over employee expense reimbursements and other related expenses to ensure they were appropriate, properly authorized, and accurately recorded; and
- To evaluate and test compliance with the Corporation's policies and procedures relating to employee and other related expenses.

Audit Results:

We determined that management has effective controls in place to ensure employee reimbursement and vendor payments are properly authorized, appropriate, and accurately recorded. Our review of the selected expenses determined that employees generally complied with the policies and procedures for processing employee reimbursements and vendor payments. (Reminder: This audit is required to be performed each year pursuant to the 2003 Memorandum of Understanding with the New York City Department of Investigation (DOI).)

2020 LIHTC Compliance

Objective:

The objectives of the LIHTC Compliance audit were:

- To determine if adequate controls were in place to ensure that IRS regulations and compliance monitoring activities for LIHTC projects were followed;

- To ensure Asset Management and LIHTC project owners/agents maintained records in accordance with IRS requirements;
- To determine if LIHTC owners were: (1) notified on a timely basis of deadlines, (2) tracked for compliance, and (3) reported non-compliance projects in accordance with the IRS compliance monitoring requirements;
- To determine if all LIHTC project buildings/units were inspected according to the IRS reporting requirements; and
- To determine if LIHTC monitoring fees were accurately calculated, billed, and collected.

Audit Results:

Upon completion of the audit, we noted that opportunities exist to improve LIHTC compliance monitoring activities and the associated internal controls. We noted a couple of areas for improvement. With respect to policies and procedures, we noted that while policy and procedure documents exist for certain steps of the process, one comprehensive document that provides specific guidance on the responsibilities for each stage of the compliance monitoring process would be beneficial to streamlining and controlling the process. In addition, this document should establish a formal review and approval process, and articulate criteria for potential delayed reporting of a LIHTC compliance review. With respect to the timeliness of Annual Owner Certifications (AOC) and on-site inspections/audits, management should formalize a review and approval process for extensions, and add staff coverage for compliance file review. We have reviewed our findings with management, and management has agreed to work on a comprehensive compliance manual that will encompass these recommendations. In addition, management will be assessing staffing needs as part of the Corporation's overall review of staffing capacity.

EMPLOYEE EXPENSES AUDIT 2020



Objective(s):

- Evaluate the effectiveness of internal controls over employee expense reimbursements and other related expenses to ensure they were appropriate, properly authorized, and accurately recorded
- Evaluate and test compliance with the Corporation’s policies and procedures relating to employee and other related expenses

Scope: The audit period covered transactions from November 1, 2019 through October 31, 2020.

Background: The Corporation’s employees may incur expenses related to various policies outlined in the HDC Employee Handbook. The major policy initiatives where employees incur expenses are:

- Travel (local or out-of-town transportation, lodging, meals, and other expenses associated with attendance at relevant training, conferences, and seminars)
- Employee Development (continuous learning by encouraging participation in work-related training classes, workshops, seminars, and tuition reimbursement; also includes professional memberships and work-related events)
- Employee Health (providing a 50% allowance toward the cost of health club membership or health-related programs, up to a maximum of \$250 per calendar year, per employee)

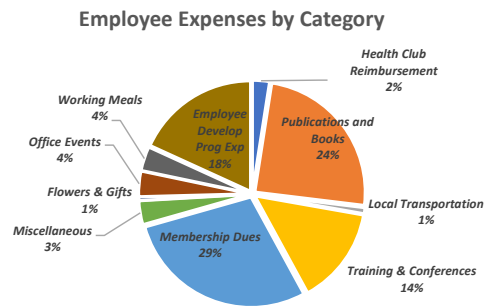
All employees are jointly responsible with HDC’s Treasury Department for the administration of, and compliance with, the Corporation’s policies and procedures. Department and Division Head approvals are required on all forms and vouchers seeking reimbursement and/or payment to vendors to ensure that incurred expenses have been verified, validated, and adhere to established policies and procedures.

Results: **We determined that management has effective controls in place to ensure employee reimbursement and vendor payments are properly authorized, appropriate, and accurately recorded. Our review of the selected expenses determined that employees generally complied with the policies and procedures for processing employee reimbursements and vendor payments. The recommendations from last year have not been addressed due to COVID-19 and the prioritization of other initiatives. These recommendations were considered minor enhancements regarding airline travel policy and tightening the timeline for submission of business meal reimbursements. We will follow up with management the next time changes are made to the Employee Handbook.**

Internal Controls:

- Policies & Procedures
- 2003 Memorandum of Understanding with the NYC Department of Investigation (DOI)
- Approval hierarchy
- Detailed expense reports required
- Original receipts required

Category	2020	2019	% Change
Health Club Reimbursement	\$5,978	\$9,769	-39%
Publications and Books	\$59,250	\$41,546	43%
Local Transportation	\$2,068	\$4,305	-52%
Training & Conferences	\$34,574	\$72,466	-52%
Membership Dues	\$69,185	\$71,074	-3%
Miscellaneous	\$8,409	\$24,036	-65%
Flowers & Gifts	\$1,210	\$1,705	-29%
Office Events	\$8,975	\$23,516	-62%
Working Meals	\$8,540	\$24,964	-66%
Employee Develop Prog Exp	\$44,062	\$108,867	-60%
Total	\$242,250	\$382,249	-37%



Objective:

1. To determine if adequate controls were in place to ensure that IRS regulations and compliance monitoring activities for LIHTC projects were followed
2. To ensure Asset Management and LIHTC project owners/agents maintained records in accordance with IRS requirements
3. To determine if LIHTC owners were: (1) notified on a timely basis of deadlines, (2) tracked for compliance, and (3) reported non-compliance projects in accordance with the IRS compliance monitoring requirements
4. To determine if all LIHTC project buildings/units were inspected according to the IRS reporting requirements
5. To determine if LIHTC monitoring fees were accurately calculated, billed, and collected

Scope: Audit scope covered compliance monitoring activities from January 1, 2020 to December 31, 2020.

Background: The Low-Income Housing Tax Credit (LIHTC) program is an important resource for creating affordable housing projects. It provides tax credits which can reduce an owner's/agent's/investor's federal tax obligation. The Internal Revenue Service (IRS) governs the tax credits and provides guidance and conditions that building owners must comply with through the U.S. Treasury regulation title 26 CFR Section 1.42-5. To ensure owners/agents comply with the requirements of the LIHTC program, HDC's Asset Management monitors the projects that have received credits.

Results: Upon completion of the audit, we noted that opportunities exist to improve LIHTC compliance monitoring activities and the associated internal controls. We note two areas for improvement:
 (1)Policies & Procedures: (a) We note that policies and procedures for certain steps of the process exists, but to ensure timelines and schedules are adhered to, written policies and procedures should be organized into one document that provides specific guidance on the responsibilities for each stage of the compliance monitoring process and establish a formal review and approval process; and (b) Articulating criteria for delaying the reporting of a LIHTC compliance review.
 (2)Timeliness of Annual Owner Certification (AOC) and On-Site Inspections/Audits: (a) Formalizing a review and approval process for extensions; and (b) Adding staff coverage for compliance file review.

Recommendations:

1. Enhance current written policies and procedures into one document that fully addresses the key elements of IRS regulation 1.42-5
2. Establish a formal review and approval process to enhance controls and manage the critical stages of compliance monitoring activities
3. Adding staff coverage to compliance reviews, especially for backlog LIHTC projects, and owners that are commonly in noncompliance
4. Develop a database of owners/LIHTC projects that commonly have delays, and guide staff schedules to provide additional resources to those reviews

Enhancement Opportunities:

1. Compliance department responsibilities for processing LIHTC compliance monitoring fees should be limited to confirming fees are calculated correctly and correspond to the correct projects. Currently, the Compliance department is also responsible for generating and billing the invoices to project owners, and providing IT department LIHTC monitoring fee reports that are uploaded to the General Ledger.

